

Establishing

# THE SOUTHWEST COMPACT



**TWO COUNTRIES.  
TEN STATES. ONE GOAL.**

A Strategic Proposal  
by  
Southern California Association of Governments

**2002**



SOUTHERN CALIFORNIA  
ASSOCIATION of GOVERNMENTS  
[www.scag.ca.gov/economy](http://www.scag.ca.gov/economy)



THE  
SOUTHWEST  
COMPACT: A  
“SUPER-  
REGION”  
FOR ECONOMIC  
DEVELOPMENT

Improving regional competitiveness in a global environment means that we will have to expand the horizons of our thinking and our actions. Thinking “outside the box” means we should collectively plan and act outside the boundaries of our regions.

International trade is one of the fastest growing segments of the U.S. economy. Fueling this growth is trade with the Pacific Rim and Latin America. The southwestern United States is well-positioned to take advantage of this trade expansion by developing an integrated and comprehensive economic development/trade/transportation strategy. It is obvious that given the goods-movement infrastructure, both manufacturing and trade will play a key role in our regions’ competitive future. In addition, due to NAFTA and GATT, international trade is creating greater opportunities for cooperation between U.S. and Mexican manufacturers to produce more competitive products for the world market.

How can our region expand and enhance these advantages in a world order that is increasingly globally competitive? The Southern California Association of Governments (SCAG) proposes considering a broader geographical area with similar competitive advantages—a “super-region” that would link Southern California to the regions east to Texas and south to northern Mexico. We have begun to refer to this as the ***Southwest Compact Region*** or simply “***The Compact***” (see Figure 1).

The NAFTA border region (100 kilometers on either side of the U.S.-Mexico border) will not work for such a Compact; it doesn’t have the resources needed to bolster competitiveness area-wide. On the U.S. side, the border counties—with the exception of San Diego County—are among the poorest and have the highest unemployment rates of all the counties in the U.S.

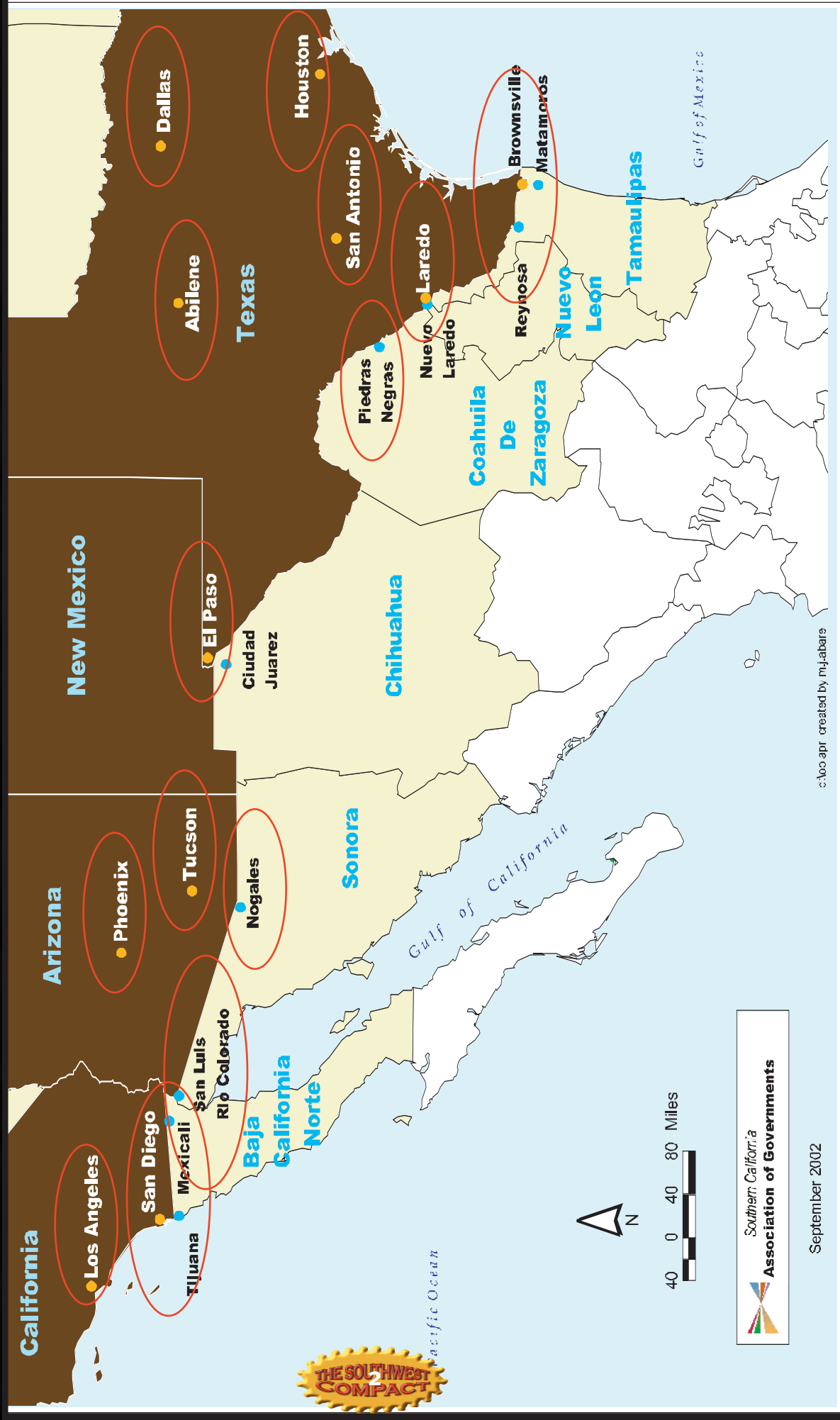
A better approach would be to forge economic links among the “city-states” of the Southwest—specifically, the regions surrounding the metropolitan areas of Los Angeles, San Diego, Phoenix, Tucson, El Paso, San Antonio, Dallas and Houston—and the six northern states of Mexico (Baja California, Sonora, Chihuahua, Coahuila, Nuevo Leon, and Tamaulipas).

This “super-region,” the Southwest Compact region, would have the size, diversity, industrial strength and locational advantages to be an international competitive force. Some of its characteristics and competitive strengths are outlined on page 3.



Figure 1

# The Southwest Compact





## SOME FACTS ABOUT THE SOUTHWEST COMPACT REGION

## COMPETITIVE STRENGTHS OF THE REGION

1. The combined population of this area was almost 58 million in 2000; we expect it to rise to just under 80 million by the year 2020—a 38% increase (Table 1).
  2. Population in the region will be growing faster than the overall population of the respective countries—therefore the share of national population will rise, particularly rapidly in the Mexican portion (Table 1).
  3. Employment in the region was just under 25.8 million in 2000; we project a 32% increase, to 34.1 million jobs, by the year 2020 (Table 2).
  4. The Mexico portion of the Compact region has a considerably higher share of total employment in Mexico than is the case for the U.S. portion, because the *maquiladoras* are concentrated there (Table 2).
  5. As shown in Table 3 on page 6, we estimate that the Southwest Compact region's GDP in 2000 amounted to \$1,532 billion, equivalent to about 15.4 percent of U.S. gross domestic product and more than two and half times the size of Mexico's economy. As of 2000, the Southwest Compact region was the fourth largest economy in the world (Table 4).
  6. SCAG forecasts that the Compact's GDP will grow much faster than that of both the U.S. and Mexico in the next 20 years. In 2020, the Southwest Compact region's GDP is forecasted to be equivalent to about 17% of the U.S. economy and more than three times that of Mexico (Table 4).
- The Mexican portion of the Compact region is a highly productive part of Mexico's economy. A study by the University of Monterrey ranks all six border states among the top ten most productive states in the country.
  - The manufacturing sector is an important and growing part of the economy in both portions of the region: 28.5% in Mexico (i.e., the 6 northern states) and 11% on the U.S. side. Looking to the future, it is projected that the growth in manufacturing in the U.S. portion of the region would be 2.5 to 3 times greater than the growth of manufacturing in the rest of the United States.
  - In Figure 2 on page 5, we present a map showing the (rough) geographical distribution of the various industry clusters in the compact region. Common to both countries are apparel, television, auto parts, and electronic components, including computers.





**Table 1**

**POPULATION TRENDS FOR SOUTHWEST COMPACT REGION**

(Thousands, except as noted)

Year	U.S. Portion	As a % of U.S. Population	Mexico's Portion	As a % of Mexico's Population	Southwest Compact Population Total
1980	27,077	11.9	10,692	16.0	37,769
1990	34,238	13.7	13,247	16.3	47,485
2000	41,269	14.6	16,643	17.1	57,912
2020f	56,342	17.3	23,654	18.6	79,995

Source: U.S.: BEA and Bureau of the Census; Mexico: INEGI; Growth Rates: World Bank

**Table 2**

**EMPLOYMENT TRENDS FOR SOUTHWEST COMPACT REGION**

(Thousands, except as noted)

Year	U.S. Portion	As a % of U.S. Employment	Mexico's Portion	As a % of Mexico's Employment	Southwest Compact Employment Total
1980	12,066	12.3	3,343	15.6	15,409
1990	15,545	13.2	4,181	17.9	19,727
2000	18,958	13.6	6,841	17.5	25,799
2020f	24,415	14.8	9,723	19.1	34,138

Source: U.S.: BEA and Bureau of the Census; Mexico: INEGI; Growth Rates: World Bank





Figure 2

# Industry Clusters in the Southwest Compact

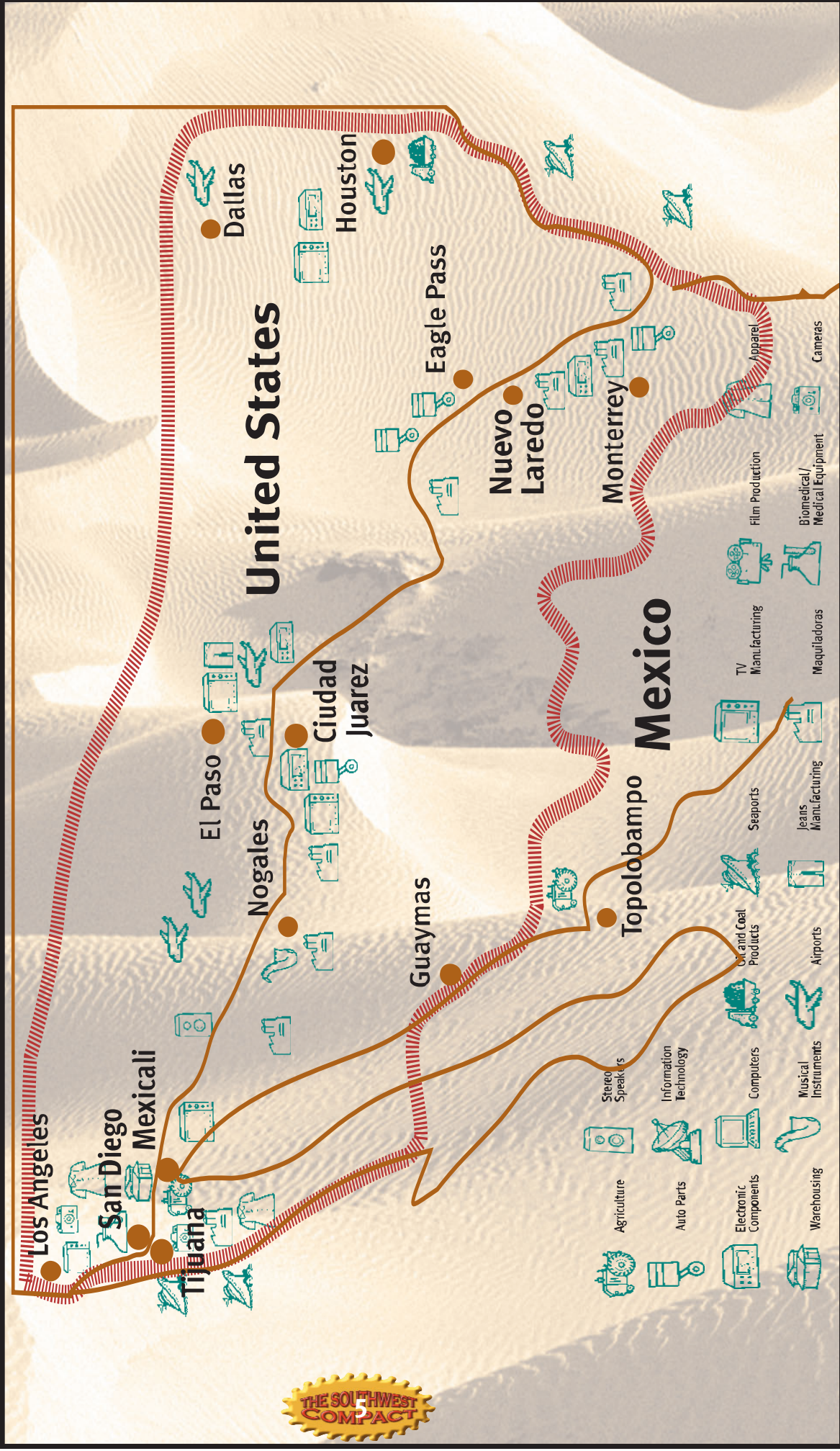




Table 3

**ECONOMIC GROWTH TRENDS**

	1970	1980	1990	2000	2020f*
<b>MEXICO</b>					
Gross Domestic Product (Billions of U.S. dollars in current prices)	40.2	202.0	262.7	580.7	959.5
Six Northern Border States Combined Gross Regional Product	8.5	38.4	54.8	139.5	278.4
Border States as a % of Mexico Total	21.1	19.0	20.9	24.0	29.0
<b>UNITED STATES</b>					
Gross Domestic Product (Billions of U.S. dollars in current prices)	1,039.7	2,731.6	5,706.7	9,941.6	17,151.5
Four U.S. Border States Gross Regional Product	184.0	582.1	1,283.0	2,297.6	4,272.7
Estimated Gross Regional Product of the SW Compact Portion of the Four States	112.9	343.3	774.9	1,392.9	2,650.5
Four Border States as a % of U.S. Total	17.7	21.3	22.5	23.1	24.9
SW Compact Portion of the Four Border States as a % of U.S. Total	10.9	12.6	13.6	14.0	15.5
<b>SOUTHWEST COMPACT REGION</b>					
Gross Domestic Product (Billions of U.S. dollars in current prices)	121.4	381.7	829.7	1,532.4	2,928.9
As a % of U.S. GDP	11.7	14.0	14.5	15.4	17.1
As a % of Mexico's GDP	301.9	189.0	315.9	263.9	305.3

\* SCAG forecast

Source: GDP and GSP for U.S. and U.S. Border states are from BEA.

Mexico GDP from IMF historical data.

Mexican state GSP data from INEGI.



Table 4

**GROSS DOMESTIC PRODUCT COMPARISONS**

(Millions of U.S. dollars)

ECONOMY	2000 GDP
United States	9,941,552
Japan	4,841,584
Germany	1,872,992
<b>Southwest Compact Region</b>	<b>1,532,400</b>
United Kingdom	1,414,557
California	1,344,623
France	1,294,246
China	1,079,948
Italy	1,073,960
New York	799,202
Texas	742,274
Canada	687,882
Brazil	595,458
Mexico	580,718
Spain	558,558

Source:

GDP for the U.S. and GSP for California, New York, and Texas are from Bureau of Economic Analysis. All other GDP figures are from World Development Indicators database.

Table 5

**MANUFACTURING INDUSTRY HOURLY WAGES:  
MEXICO VS. THE U.S.**

(Dollars per Hour)

Period	Mexico	U.S.	Mexico as a % of the U.S.
1993	2.1	11.7	17.9
1994	2.1	12.0	17.5
1995	1.3	12.3	10.6
1996	1.3	12.7	10.2
1997	1.6	13.1	12.2
1998	1.6	13.4	11.9
1999	1.9	13.8	13.8
2000	2.2	14.3	15.4
2001	2.5	14.8	16.9

Source: INEGI.





COMPETITIVE  
STRENGTHS OF  
THE REGION  
(CONTINUED)

- Analysis shows that these industry clusters are growing and that the U.S. has a competitive advantage in them vis-à-vis Mexico (but not necessarily with respect to the rest of the world).
- As shown in Table 5 (page 7), hourly wages in manufacturing industry in Mexico, while nearly doubling since the 1995 peso devaluation, are still less than 17% of those in the U.S. When combined with the higher-order advantages of technology, design, and marketing in the U.S., Mexico's relatively low wages obviously enhance the competitiveness of the region. The challenge for the U.S. in forming a super-regional Compact will be to gain a competitive advantage from cross-border regional integration without losing jobs on this side of the border.

Fundamental to the creation of the Southwest Compact region is the capacity to increase output, employment, and wage income growth in the industry sectors that are similar in the two countries without shifting employment from the relatively higher wage labor force in the U.S. to Mexico. In other words, the imperative is to create a network that will lead to increased wealth in both countries.

Maximizing the competitiveness of the Southwest Compact region—raising productivity and efficiency of production, thus expanding the amount of economic activity—will require a transportation system that facilitates “just-in-time” production as well as exports to the North, South, East, and West. In addition, acting “outside the box” and forming the Southwest Compact region will provide economic benefits that raise the standard of living for all in the region, helping tremendously in the long term to deal with the complex problems of immigration, drug trafficking, public health, and environmental and public safety.

Developing a more efficient intermodal goods movement system along the U.S.-Mexico border should facilitate creating linkages among the economies of the Southwest Compact. The objective of this system will be to connect the East-West trade routes along the U.S./Mexico border with a seamless freight transportation system—***The Southwest Passage***.

This system would provide the backbone for a super-regional goods movement network linking Southwestern industries with the world market. It would also have the side benefit of mitigating adverse impacts of trade growth: traffic congestion, air pollution, vehicle delays at grade crossings, and noise in residential areas.

THE SOUTHWEST  
PASSAGE—A  
TRANSPORTATION  
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**THE SOUTHWEST  
PASSAGE-A  
TRANSPORTATION  
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FOR THE  
COMPACT  
(CONTINUED)**

The states of California, Arizona, New Mexico, and Texas should implement this strategy by focusing on four areas:

- Fostering economic cooperation and development
- Improving the information and telecommunications infrastructure
- Developing a continental freight transport network.
- Strengthening intermodal trends

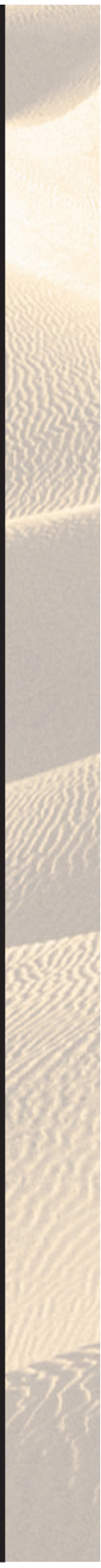
The Southwest Passage would comprise the following (see Figure 3):

- The I-8, I-10, I-20 and I-37 Interstate highways, together with the Burlington Northern/Santa Fe Southern route and the Union Pacific Sunset Route, provide an ideal vehicle to access the expanding Mexican domestic market. These routes go through all of the major Southwestern metropolitan areas and have numerous direct links to the ports of entry and interior of the U.S., Mexico, and Canada.
- Enhanced connections between the six major international airports and the inter-state and inter-county highway system to capture the Trans-Pacific and Trans-American air cargo markets.
- Enhanced connections between the ports of Southern California and Houston using the intercontinental freight network of highways and railways as a mini-land bridge to foster higher volumes of Asia-to-Europe and U.S.-to-Mexico trade.
- Enhanced connections between the intermodal facilities and the interstate and inter-county highway system along the Southwest Passage.

By working together, the Southwestern U.S. states and metropolitan areas can establish a new framework of action for fostering further economic growth with an international trade corridor—The Southwest Passage.



# The Southwest Compact Transportation Routes





## NEXT STEPS

1. Support the designation of the Southwest Passage by the U.S. Secretary of Transportation from Southern California through Houston and Dallas as a “High Priority Corridor” in order to receive federal funds for the coordinated planning, design, and construction of corridors of national significance, economic growth, and international and inter-regional trade
2. Work cooperatively—ensuring close coordination, consultation, and information sharing among fellow Metropolitan Planning Organizations, Councils of Government, key northern Mexican municipios (metropolitan areas), other regional economic development bodies, and States—on the transportation planning and economic development strategies of the Southwest Passage and the Compact, as well as subsequent actions to promote and implement them.
  - Draft a Letter of Intent formalizing an institutional relationship among the Councils of Government, Metropolitan Planning Organizations, municipios, and States within the Southwest Compact area in order to develop and implement the Southwest Passage.
  - Complete the Southwest Passage master list of programs and projects.
  - Work with the U.S. Federal Highway Administration in obtaining guidelines and procedures for the designation of the Southwest Passage from the California border to Dallas, Houston and Corpus Christi, as well as eligibility requirements for High Priority Corridors to obtain appropriations.
  - Obtain support from COGs, MPOs, strategic Mexican municipios and states of the Southwest in the form of resolutions of support and staff/resource commitments for work on Southwest Compact and Southwest Passage projects.
  - Conduct a summit of elected officials in the Southwest Compact region.





## NEXT STEPS (CONTINUED)

3. Explore the likely institutional framework for forming the Southwest Compact region. The following could provide lessons for us to learn:
  - The European experience, where nation states are now participating in the **European Union (EU)** to advance and mediate economic integration, and where states like Bavaria in Germany and Salzburg in Austria have formed a EuRegion to implement regional economic and social integration in their border region.
  - Presently, the **North American Free Trade Agreement** and its side agreements, along with the NADBank, are the primary vehicles that can be used to begin to deal with U.S. -Mexico regional problems and opportunities.
  - The **Binational Transportation Planning Joint Working Committee (JWC)**, which involves the Department of Transportation in both countries, the States along the U.S.- Mexico Border in both countries, and the State Department in both countries. The JWC's mission is to achieve binational consensus and provide advice on how to solve cross-border issues relating to transportation.
  - The **Appalachian Regional Commission (ARC)**, established by Congress in 1965. The structure of the ARC provides a model framework for the four U.S. states to cooperate, coordinate, plan, and implement transportation and general economic development projects within the Compact region.

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### CREDITS

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